

June 12, 2009

Summary:

Acton, Massachusetts; General Obligation; Note

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Credit Profile		
US\$2.137 mil BANs dtd 06/30/2009 due 06/30/2010		
Short Term Rating	SP-1+	New
Acton Twn GO		
Long Term Rating	AAA/Stable	Upgraded
Acton Twn GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Acton, Mass.' general obligation (GO) debt one notch to 'AAA' from 'AA+' based on the town's strong economic indicators, demonstrated record of making the needed budgetary adjustments to yield consistent operating results, and very low debt burden. The outlook is stable.

In addition, Standard & Poor's assigned its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs).

The 'SP-1+' is based on the town's underlying credit quality and demonstrated access to credit markets. The town is issuing these notes to finance school repairs; and the notes are a GO of the town, subject to its full faith and credit payment of principal and interest. In accordance with state statutes, the bond ordinance, approved and voted on at a town meeting, authorizes the BAN issuance and the issuance of the bonds necessary to take them out, most likely when the notes come due on June 30, 2010.

Additional rating factors supporting the upgrade include the town's:

- Good location to more-diverse labor markets within the Boston metropolitan statistical area (MSA), contributing to below-average unemployment trends;
- Very strong household income and per capita market values;
- Good reserves, providing sufficient operating flexibility to manage through the recession; and
- Modest additional capital needs.

Acton, with a population estimate of 20,331, is 25 miles northwest of Boston. Acton is a suburban, primarily residential community that enjoys good access to the greater Boston MSA's employment centers, including the Route 128 high-tech corridor. The town's desirable location has contributed to favorable economic indicators.

Unemployment, while rising during the national recession, at 5.5% as of April 2009, remains below commonwealth and national rates. Moreover, household income levels, measured by 2008 median household effective buying income, were a very strong 197% of the national level.

The town's property tax base is sizable with total assessed value (AV) at \$3.7 billion and a state equalized valuation of \$4.1 billion. Residential properties account for roughly 87% of those values. Over the years, the tax base has seen growth due to property appreciation; but more recently, values have declined and growth has abated. AV declined by roughly 2.6% into fiscal 2009. Despite the reduction, in our opinion, the tax base is diverse with the 10 leading taxpayers accounting for a very low 4.8% of AV. Per capita market values, however, remain, in our view, an extremely strong \$199,000 per capita. In 2008, the median home value, which we believe reflects the town's strong real estate values, was 309% of the national level.

We believe that Acton's operations are stable and that the town's good reserves will allow it to manage through the recession. The town derives roughly 80% of its revenues from property taxes; and collections remain strong, typically exceeding 98%-99% and providing the town with a stable and predictable revenue source. The town is not overly susceptible to state aid cuts because intergovernmental aid accounts for just 14% of expenditures. The town has maintained, in our opinion, a consistent reserve position over the past five years with unreserved general fund balance ranging between 7% and 12% of expenditures. For fiscal 2008, the town closed with a \$5.5 million unreserved general fund balance, or a good 7.5% of expenditures. While we believe current reserves are good, they are below average, in particular when compared with levels of similar-size communities nationwide.

Nevertheless, the town has been able to maintain consistency in its financial operations due, in part, to the electorate's willingness to authorize revenue flexibility beyond Proposition 2 1/2 constraints. In our opinion, the town's demonstrated record of Proposition 2 1/2 overrides indicates an ability to pay for general services and capital improvements, when needed, without reducing reserves.

For fiscal 2009, the town faced some budgeting challenges, in particular as local receipts came in less than budgeted and when state aid was cut midyear. Despite this, it is our understanding that management made the expenditure adjustments needed to yield balanced operating results; and officials are projecting closing the fiscal year with reserves in-line with historical levels. The 2010 budget is balanced and on par with the 2009 budget. Moreover, management expects to remain proactive during the 2010 budget year; and it is planning to manage department budgets to 97% of their appropriation. In management's view, this will provide sufficient flexibility if the economy worsens and local receipts see further declines.

Based on a review of several key financial practices, Standard & Poor's considers Acton's management practices "standard" under its financial management assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights include a good focus on financial and capital planning. The town develops a three-year budget forecast and five-year capital improvement plan, which it updates annually and uses to identify additional needs. The town manager monitors budget variances monthly and makes quarterly and annual reports to the town's finance committee and selectman, respectively. Nevertheless, the town does not have formal debt management or reserve policies.

In our opinion, Acton's debt position is favorable. After factoring in state school construction aid and self-supporting enterprise debt, Acton's debt profile is a low \$1,997 per capita, or 1% of market value. These figures include the town's proportionate share of Acton-Boxborough Regional School District debt and underlying debt from the water district. The town has, what we consider, a very low debt service carrying charge of 4% of expenditures and an above-average debt amortization schedule with officials retiring roughly 56% of principal by 2019 and 100% by 2031. In terms of additional capital needs, the town is planning to vote to extend its sewer district with a planned debt authorization of \$1.8 million. The town, however, is applying for stimulus money; as

such, management has yet to finalize the timing and amount of the debt issuance. The town will finance the debt through low interest loans from the Massachusetts Water Pollution Abatement Trust. Moreover, the town expects the debt to be self-supported through user fees.

Outlook

The stable outlook reflects Standard & Poor's view that management will remain proactive and make the necessary adjustments to yield balanced results as it has historically demonstrated despite potential declines in revenues more sensitive to economic conditions. In our opinion, we believe the town's diverse property tax base should provide stability to property tax revenues, which are the town's leading revenue source. The town currently maintains a good reserve position, which, in our view, should provide operating flexibility to manage through the recession for the near future. Moreover, we believe the electorate's record of approving Proposition 2 1/2 overrides and capital exclusions indicate a willingness to support long-term budgetary growth. Currently, the town's additional capital needs are modest and not a credit concern due to its current net debt burden.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Short-Term Debt," June 15, 2007

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